



# Internal Financial Controls

Section 501 of the Labor-Management Reporting and Disclosure Act of 1959, as amended (LMRDA), outlines general fiduciary responsibility for officers and employees of labor organizations. Union officials occupy positions of trust and, therefore, must ensure that the union's funds and other assets are used solely for the benefit of the union and its members. Unfortunately, if a union or other organization does not have an adequate system of internal financial controls, some individuals may use, or be tempted to use, some of the organization's funds for their own purposes or become careless and mix the organization's money with their own.

To prevent, or at least inhibit, the misuse or embezzlement of their funds, most organizations including corporations, banks, international unions, etc., install internal controls over the handling of their finances. Adequate and effective internal controls require a separation of functions and responsibilities among a number of individuals who are actively involved in the financial process and who provide a system of "checks and balances" over each other's activities. An entirely adequate system of internal controls is not always possible in small local unions which employ, at most, one full- or part-time officer or employee to handle the union's financial affairs and cannot afford the services of an independent accountant. However, some effective internal controls can be established even in one-person operations. For example, local union executive boards or other governing bodies should consider taking the following actions to safeguard union funds:

- Require that the union's financial officers issue receipts to members for all amounts collected from them and maintain records showing the dues payment status of each member.
- Require that union financial officers maintain receipts and disbursement journals (or similar records) to record all monies received and spent by the union.
- Require that the union's financial officer make regular, frequent deposits of dues and other union funds to the union's bank account and identify each deposit with a specific set or time period of receipts in the union's receipts journal to make the relationship between receipts and bank deposits perfectly clear and easily verifiable.
- Ensure that there is a full understanding, in the form of membership or executive board authorizations recorded in meeting minutes, about the level of salary, allowances, and expenses (if any) to which the union's officers are entitled.

- Require that all checks drawn on the union's bank account have a second signature and ensure that the cosigner fully understands that his/her fiduciary responsibilities require that the checks be signed only after they are completely filled out and the cosigner knows the purpose and legitimacy of each transaction.
- Require that the financial officer give a full report of the union's finances at each membership or executive board meeting and that prior authorization be obtained for large or unusual transactions.
- Establish internal local union audit committees (or trustees).
- Ensure that the internal audit committee (or trustees) conduct regular, periodic examinations of the union's books and records, including:
  - reconciling the union's record of bank account balances with bank statements.
  - conducting a spot-check reconciliation of receipts with deposits.
  - spot-checking for possible unrecorded receipts by tracing dues and fees payment entries on membership dues payment records back to duplicate receipts and receipts journal entries.
  - ensuring that all cancelled checks that cleared the bank, per the bank statement, have been provided to the audit committee for examination.
  - examining cancelled checks for consistency of payee and endorsements and comparing the amount and payee on each check with the information recorded on check stubs and in the disbursement journal.
  - ensuring that adequate backup documentation (bills, sales invoices, etc.) is maintained for all union expenditures.
  - verifying for purpose and legitimacy of check transactions by referring to check stub and journal entries, back-up documentation, and the membership or executive board authorizations recorded in meeting minutes.
- Review established internal controls periodically and change operating procedures as necessary to ensure that the union's funds are being properly handled and adequately safeguarded.

Although establishment of internal financial controls will not absolutely prevent misuse or embezzlement of union funds, internal controls such as those listed above will surely inhibit some individuals from misusing union funds. Union officers and audit committee members (or trustees) who have further questions about internal financial controls should seek advice of their national or international union or the nearest OLMS field office.

# Office of Labor-Management Standards Field Offices

Staff is available to answer questions about the LMRDA at the OLMS Field Offices.

**Atlanta District Office**

61 Forsyth Street, SW, Room 8B85  
Atlanta, GA 30303  
(404) 562-2083

**Birmingham Resident Investigator Office**

950 22<sup>nd</sup> Street, North, Suite 601  
Birmingham, AL 35203  
(205) 731-0239

**Boston District Office**

JFK Federal Building, Room E-365  
Boston, MA 02203  
(617) 624-6690

**Buffalo District Office**

111 West Huron Street, Room 1310  
Buffalo, NY 14202  
(716) 551-4976

**Chicago District Office**

230 South Dearborn Street, Room 774  
Chicago, IL 60604  
(312) 596-7160

**Cincinnati District Office**

36 East Seventh Street, Room 2550  
Cincinnati, OH 45202  
(513) 684-6840

**Cleveland District Office**

1240 East 9th Street, Room 831  
Cleveland, OH 44199-2053  
(216) 357-5455

**Dallas District Office**

525 Griffin Street, Room 300  
Dallas, TX 75202  
(972) 850-2500

**Denver District Office**

1999 Broadway, Suite 2435  
Denver, CO 80201-6550  
(720) 264-3231

**Detroit District Office**

211 West Fort Street, Room 1313  
Detroit, MI 48226  
(313) 226-6200

**Grand Rapids Resident Investigator Office**

2920 Fuller Avenue, NE, Room 104  
Grand Rapids, MI 49505  
(616) 456-2335

**Honolulu Resident Investigator Office**

300 Ala Moana Boulevard, Room 5-121  
Honolulu, HI 96850  
(808) 541-2705

**Houston Resident Investigator Office**

1919 Smith Street, Room 180  
Houston, TX 77002  
(713) 718-3755

**Kansas City Resident Investigator**

1100 Main Street, Room 950  
Kansas City, MO 64105-5143  
(816) 502-0290

**Indianapolis Resident Investigator Office**

46 E. Ohio St  
Indianapolis, IN 46204  
(317) 614-0013

**Las Vegas Resident Investigator Office**

600 Las Vegas Blvd. South, Suite 750  
Las Vegas, NV 89101  
(702) 388-6126

**Los Angeles District Office**

915 Wilshire Boulevard, Suite 910  
Los Angeles, CA 90017  
(213) 534-6405

**Miami Resident Investigator Office**

300 NE Third Avenue, Room 120  
Ft. Lauderdale, FL 33301  
(954) 356-6850

**Milwaukee District Office**

517 East Wisconsin Avenue, Room 737  
Milwaukee, WI 53202-4504  
(414) 297-1501

**Minneapolis Resident Investigator Office**

220 South Second Street, Room 100  
Minneapolis, MN 55401  
(612) 370-3111

**Nashville District Office**

233 Cumberland Bend Drive, Room 110  
Nashville, TN 37228  
(615) 736-5906

**New Haven Resident Investigator Office**

Two Whitney Avenue, Room 301  
New Haven, CT 06510  
(203) 773-2130

**New Orleans District Office**

701 Loyola Avenue, Room 13009  
New Orleans, LA 70113  
(504) 589-6174

**New York District Office**

201 Varick Street, Room 878  
New York, NY 10014  
(646) 264-3190

**Newark Resident Investigator Office**

190 Middlesex/Essex Turnpike, Room 204  
Iselin, NJ 08830  
(732) 750-5661

**Philadelphia District Office**

170 S. Independence Mall West, Room 760  
Philadelphia, PA 19106-3310  
(215) 861-4818

**Pittsburgh District Office**

1000 Liberty Avenue, Room 801  
Pittsburgh, PA 15222  
(412) 395-6925

**Puerto Rico Resident Investigator Office**

7 Tabanuco Street, Room 404  
Guaynabo, PR 00968  
(787) 277-1547

**St. Louis District Office**

1222 Spruce Street, Room 9, 109E  
St. Louis, MO 63103  
(314) 539-2667

**San Francisco District Office**

71 Stevenson Street, Room 440  
San Francisco, CA 94105  
(415) 848-6567

**Seattle District Office**

1111 Third Avenue, Room 605  
Seattle, WA 98101  
(206) 398-8099

**Tampa Resident Investigator Office**

4950 West Kennedy Boulevard, Room 240  
Tampa, FL 33609  
(813) 288-1314

**Washington District Office**

800 North Capitol Street, NW, Suite 120  
Washington, DC 20002  
(202) 513-7300

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## For More Information

- Visit OLMS online at [www.olms.dol.gov](http://www.olms.dol.gov).
  - Send questions to [olms-public@dol.gov](mailto:olms-public@dol.gov).
  - Call the DOL Help Line at **1-866-487-2365**.
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